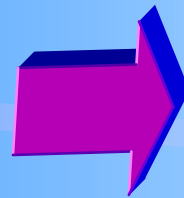FEDERAL TRADE COMMISSION
FOR THE CONSUMER

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Introduction

- Case COMP/M.2978 Lagardère/Natexis/VUP

  one of the leading 2003 European merger case in the book industry

- One of the main particularity of the case: the econometric study carried out for the European Commission by Professor Marc Ivaldi*

- The magnitude of the **unilateral effects** are the result of this study on the retail market of books on general literature by the retailers to the final consumer

*"Evaluation Econométrique des Effets de la Concentration Lagardère-VUP sur le Marché du Livre de Littérature Générale", Jérôme Foncel et Marc Ivaldi, revised and increased final version, September 2003.
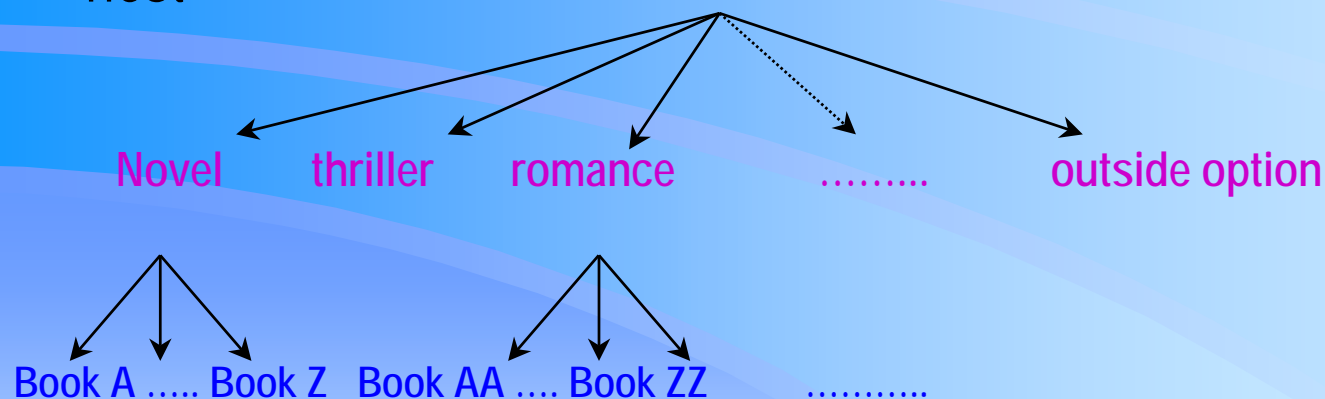
Unilateral effects in Lagardère/Natexis/VUP

- In this study, the unilateral effects measure the impact of a concentration on the public selling prices, the final consumers'* surplus and the profits of the companies

- Before the merger with VUP, if Hachette Livre (subsidiary of Lagardère) decided to increase prices unilaterally, some of these final consumers would turn to other competing publishers, among which VUP

- As a result of the concentration with VUP, Hachette absorbs a part of these competitive pressures, and can thus recover a part of these customers

*In the absence of reliable data available on the level of the discounts granted to the retailers.

# The Econometric Model used: the Nested Logit Model

- The theoretical framework used to analyze the market demand in the general literature book is the nested logit model from the family of the discrete choice model. The nested logit model is of significant interest in differentiated industries like the book industry

- Consumers make a discrete choice among a set of different alternatives called nest and then choose a book in the concerned nest

Novel   thriller   romance   ……...   outside option

Book A ….. Book Z   Book AA …. Book ZZ   ………..

- Estimation: 3SLS

4

Results

- As the result of the merger, on the retail markets of all general literature books (pocket and hardcover formats) by the retailers to the final consumer, the study indicates that prices of the books published <u>would increase significantly</u>

- Consumers' surplus would also fall significantly which is equivalent to a non-negligible part of the turnover of industry in the field of general literature

- The price increase is estimated for different market sizes:

% Price increase

Market size
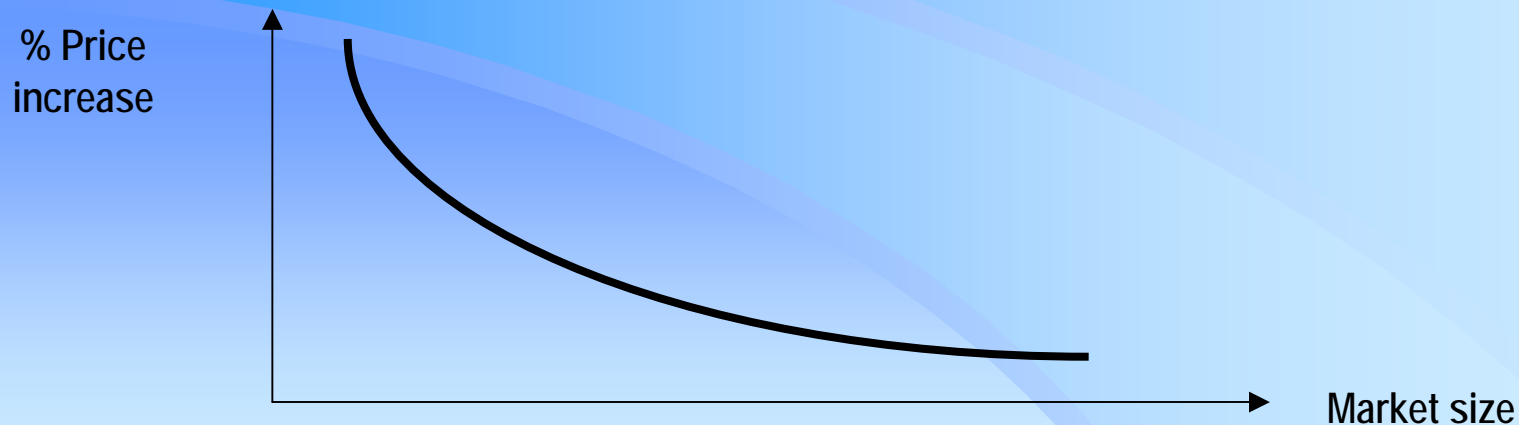
Robustness of the Results

- Using the Bootstrap method <u>to construct confidence intervals</u>, there is only 5% probability that the price rise due the concentration could not be included in a significant interval of +/- 1% of the mean value of the price change

- A very high number of observations : +/- 10 000

- Significance of the different statistical tests

- Stability of the main parameters
    - The marginal utility of a given book
    - The intra-brand correlation